



## **CRS Report for Congress**

# **Health and Safety Concerns Over U.S. Imports of Chinese Products: An Overview**

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### **Summary**

China is a major source of U.S. imports of consumer products (such as toys) and an increasingly important supplier of various food products. Reports of unsafe seafood, pet food, toys, tires, and other products imported from China over the past year or so have raised concern in the United States over the health, safety, and quality of imported Chinese products. This report provides an overview of this issue and implications for U.S.-China trade relations and will be updated as events warrant.

In 2007, China overtook Canada to become the largest source of U.S. imports (at \$322 billion); about 17% of all U.S. imports now come from China. Over the past year or so, numerous recalls and warnings have been issued by U.S. firms over various products imported from China, due to health and safety concerns. This has led many U.S. policymakers to question the adequacy of China's regulatory environment in ensuring that its exports to the United States meet U.S. standards for health, safety, and quality; as well as the ability of U.S. government regulators, importers, and retailers to identify and take action against unsafe imports (from all countries) before they enter the U.S. market.

### **Warnings, Recalls, and Detentions**

**The Food and Drug Administration (FDA)** in March 2007 issued warnings and announced voluntary recalls on certain pet foods (and products used to manufacture pet food and animal feed) from China believed to have caused the sickness and deaths of numerous pets in the United States. In May 2007, the FDA issued warnings on certain toothpaste products (some of which were found to be counterfeit) found to originate in China that contained poisonous chemicals. In June 2007, the FDA announced import controls on all farm-raised catfish, basa, shrimp, dace (related to carp), and eel from China after antimicrobial agents, which are not approved in the United States for use in farm-raised aquatic animals, were found. Such shipments will be detained until they are proven to be free of contaminants. On January 25, 2008, the FDA posted on its website a notice by Baxter Healthcare Corporation that it had temporarily halted the manufacture of its multiple-dose vials of heparin (a blood thinner) for injection because of recent reports of

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serious adverse events (including an estimated 81 deaths and hundreds of complications) associated with the use of this drug. On February 18, 2008, the *New York Times* reported that a Chinese firm that produces an active ingredient used to produce heparin was not certified by the Chinese government to make the drug and had not undergone FDA inspection; many have speculated that the Chinese plant is likely the source of the problem.<sup>1</sup> On September 12, 2008, the FDA issued a health information advisory on infant formula in response to reports of contaminated milk-based infant formula manufactured and sold in China.<sup>2</sup>

**The National Highway Traffic Safety Administration (NHTSA)** in June 2007 was informed by Foreign Tire Sales Inc., an importer of foreign tires, that it suspected that up to 450,000 tires (later reduced to 255,000 tires) made in China may have a major safety defect (i.e., missing or insufficient gum strip inside the tire). The company was ordered by the NHTSA to issue a recall. The Chinese government and the manufacturer have maintained that the tires in question meet or exceed U.S. standards.

**The Consumer Product Safety Commission (CPSC)** issued alerts and announced voluntary recalls by U.S. companies on numerous products made in China in 2007. From January-December 2007, over four-fifths of CPSC recall notices involved Chinese products.<sup>3</sup> Over this period, roughly 17.6 million toy units were recalled because of excessive lead levels. Recalls were also issued on 9.5 million Chinese-made toys (because of the danger of loose magnets), 4.2 million “Aqua Dots” toys (because beads contain a chemical that can turn toxic if ingested) and 1 million toy ovens (due to potential finger entrapment and burn hazards).<sup>4</sup>

## U.S. Imports of Products of Concern from China<sup>5</sup>

**Table 1** lists products imported from China in 2007 that have been the subject of recent U.S. health and safety concerns, such as toys, seafood, tires, animal foods, organic chemicals and pharmaceuticals, and toothpaste. It indicates that China was a major source of imports for many of these products. For example, China was the largest supplier of imported toys (89% of total), seafood products (15%), and tires (26%); the 2<sup>nd</sup> largest foreign supplier of animal food products (24%); the 6<sup>th</sup> largest supplier of toothpaste (1%); and the 9<sup>th</sup> largest source of imported pharmaceuticals and organic chemicals (3%). The table also indicates that, despite health and safety concerns, U.S. imports of most of the products listed (with the exception of toothpaste) increased in 2007 over 2006 levels. For example, toy imports from China grew by 33.4%.

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<sup>1</sup> New York Times, *China Didn't Check Drug Supplier, Files Show*, February 16, 2008.

<sup>2</sup> On September 22, 2008, *China Daily* reported that melamine-tainted formula had to date killed three children and sickened 53,000 others (13,000 of which had to be hospitalized).

<sup>3</sup> According to the CPSC, there were 61 toy recalls in 2007 compared with 40 in 2006.

<sup>4</sup> For a list of company recalls of Chinese products, see the CPSC website at [<http://www.cpsc.gov/cpscpub/prerel/prerel.html>].

<sup>5</sup> For an overview of issues concerning U.S. food imports from China, see CRS Report RL34080, *Food and Agricultural Imports from China*, by Geoffrey S. Becker.

**Table 1. U.S. Imports of Selected Products from China in 2007**

<b>Product Description</b>	<b>Imports from China (\$ millions)</b>	<b>China's Rank as a Source of Imported Product</b>	<b>Imports from China as a % of Total U.S. Imports (%)</b>	<b>Percentage Change in Imports in 2007 over 2006 (%)</b>
Dolls, toys, and games	19,460.5	1	89.4	33.4
Fish and other seafood products	2,054.3	1	14.9	4.8
Tires	2,436.4	1	26.0	28.5
Animal foods	163.0	2	24.0	19.3
Toothpaste	1.3	6	1.0	-59.6
Organic chemicals and pharmaceutical products	3,235.3	9	3.4	25.0
Total imports from China	321,507.8	1	16.5	11.7

**Source:** USITC DataWeb using various classifications systems and digit levels.

## **China's Poor Regulatory System**

China is believed to have a rather weak health and safety regime for manufactured goods and agricultural products. Problems include weak consumer protection laws and poorly enforced regulations, lack of inspections and ineffective penalties for code violators, underfunded and understaffed regulatory agencies and poor interagency cooperation, the proliferation of fake goods and ingredients, the existence of numerous unlicensed producers, falsified export documents, extensive pollution,<sup>6</sup> intense competition that often induces firms to cut corners, the relative absence of consumer protection advocacy groups, failure by Chinese companies to effectively monitor the quality of their suppliers' products, restrictions on the media,<sup>7</sup> and extensive government corruption and lack of accountability, especially at the local government level.

Chinese officials contend that most Chinese-made products are safe and note that U.S. recalls for health and safety reasons have involved a number of countries (as well as U.S. products). They also argue that some of the blame for recalled products belongs to U.S. importers or by U.S. designers. They further contend that some U.S. products imported into China have failed to meet Chinese standards.<sup>8</sup> However, they have

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<sup>6</sup> For example, many fish farmers in China reportedly feed various drugs to the fish to help keep them alive in polluted waters.

<sup>7</sup> China's media often reports on health and safety problems, but rarely criticizes the central government for such problems.

<sup>8</sup> Since June 2007, China has seized, rejected, or complained about U.S. shipments of orange pulp (continued...)

acknowledged numerous product health and safety problems in China, as reflected in reports that have appeared in China's state-controlled media. For example, in June 2004, the Chinese *People's Daily* reported that fake baby formula had killed 50 to 60 infants in China. In June 2006, the *China Daily* reported that 11 people had died from a tainted injection used to treat gall bladders. In August 2006, *Xinhua News Agency* reported that a defective antibiotic drug killed seven people and sickened many others.

China has announced a number of initiatives to improve and strengthen food and drug safety supervision and standards, increase inspections, require safety certificates before some products can be sold, and to crack down on government corruption:

- In May 2007, the *Xinhua News Agency* reported that former director of China's State Food and Drug Administration had been sentenced to death for taking bribes (equivalent to \$850,000) in return for approving untested and/or fake medicines (he was executed on July 10, 2007). On the same day, the *Xinhua News Agency* reported that the Chinese government had announced that it would, by the end of 2007, complete regulations for setting up a national food recall system would ban the sale of toys that failed to pass a national compulsory safety certification.
- On June 27, 2007, the *China Daily* reported that a nationwide inspection of the food production industry had found that a variety of dangerous industrial raw materials had been used in the production of flour, candy, pickles, biscuits, black fungus, melon seeds, bean curd, and seafood. As a result, the government reportedly closed 180 food factories found to be producing unsafe products and/or making fake commodities. It also reported that in 2006, the government had conducted 10.4 million inspections, uncovering problems in 360,000 food businesses, and had closed 152,000 unlicensed food businesses.
- On July 4, 2007, the *China Daily* reported that the government had finished making amendments to all food safety standards and had established an emergency response mechanism among several ministries to deal with major problems regarding food safety.
- On August 9, 2007, *China Daily* reported that the government had pledged to spend \$1 billion by 2010 to improve drug and food safety.
- On August 15, 2007, a spokesperson from the Chinese embassy in Washington, DC, said that China would require that every food shipment be inspected for quality by the government by September 1, 2007.

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<sup>8</sup> (...continued)

dried apricots, frozen chicken, pork products, pacemakers, soybeans, frozen potato slices, and sardines. In September 2007, China reportedly ordered increased inspections of imported U.S. products. Some analysts contend that these actions are retaliation for U.S. recalls of Chinese products.

- On August 20, 2007, the Chinese government announced that it had created a 19-member cabinet-level panel to oversee product quality and food safety (headed by Vice-Premier Wu Yi) and would start a four-month nationwide campaign to improve the quality of goods and food.
- On December 5, 2007, the government stated that during the first 10 months of the year, it had shut down 47,800 food factories without operating licenses.
- On January 15, 2008, China announced it had inspected over 3,000 export-oriented toy manufacturers and had revoked licences for 600 firms that failed to meet quality standards.

Despite these efforts, reports of tainted products persist. For example in January 2008, dozens of people in Japan reportedly became ill from eating dumplings imported from China that contained pesticide. In addition, hundreds of cancer patients in China were reportedly sickened by tainted drugs produced by a major Chinese drug company. On September 16, 2008, *China Daily* reported that tainted baby formula had killed 2 infants and sickened more than 1,200 others.

The United States and China reached a number of agreements in 2007 to address health and safety concerns:

- On September 11, 2007, the CPSC and its Chinese counterpart, the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), signed a Joint Statement on enhancing consumer product safety. China pledged to implement a comprehensive plan to intensify efforts (such as increased inspections, efforts to educate Chinese manufacturers, bilateral technical personal exchanges and training, regular meetings to exchange information with U.S. officials, and the development of a product tracking system) to prevent exports of unsafe products to the United States, especially in regard to lead paint and toys.
- On September 12, 2007, the NHTSA signed a Memorandum of Cooperation with its Chinese counterpart on enhanced cooperation and communication on vehicles and automotive equipment safety.
- On December 11, 2007, the U.S. Health and Human Services (HHS) announced that it had signed two Memoranda of Agreement (MOA) with its Chinese counterparts; the first covering specific food and feed items that have been of concern to the United States, and the second covering drugs and medical devices. Both MOAs would require Chinese firms that export such products to the United States to register with the Chinese government and to obtain certification before they can export. Such firms would also be subject to annual inspections to ensure they meet U.S. standards. The MOAs also establish mechanisms for greater information sharing, increase access of production facilities by U.S. officials, and creates working group in order to boost cooperation. On March 13, 2008, the FDA announced that it planned to place eight FDA

staffers in China. Some members of Congress have proposed placing a CPSC official at the U.S. embassy in Beijing.

## Economic Implications

Many Members of Congress have called for tighter rules (such as increased inspections, certification requirements, and mandatory standards for toys), and increased funding for U.S. product safety agencies. On December 19, 2007, the House passed H.R. 4040 (Rush): *the Consumer Product Safety Modernization Act*. On March 6, 2008, the Senate passed its version of H.R. 4040 as a substitute amendment (S. 2263: *the CPSC Reform Act*). House and Senate Conferees reached a compromise agreement on H.R. 4040 on July 28, 2008, and the bill was signed into law (P.L. 110-314) on August 14.<sup>9</sup>

Concerns over the health, safety, and quality of Chinese products could have a number of important economic implications. Both the United States and China have accused each other of using health and safety concerns as an excuse to impose protectionist measures and some observers contend that this issue could lead to growing trade friction between the two sides. International concerns over the safety of Chinese exports may diminish the attractiveness of China as a destination for foreign investment in export-oriented manufacturing, as well as for foreign firms that contract with Chinese firms to make and export products under their labels (such as toys). Efforts by China to restore international confidence in the health and safety of its exports through increased inspections, certification requirements, mandatory testing, etc., could have a significant impact on the cost of doing business in China, which could slow the pace of Chinese exports and hurt employment in the export sector. Moreover, international concerns over the safety of Chinese products could prove to be a setback to the government's efforts to develop and promote internationally recognized Chinese brands (such as cars), which it views as important to the country's future economic development. Thus, it is very likely the Chinese government will take this issue very seriously. However, it is unclear how long it will take for the central government to effectively address the numerous challenges it faces (especially government corruption and counterfeiting) to ensure that its exports comply with the health and safety standards of the United States and other trading partners. Additionally, a sharp decrease in purchases by U.S. consumers of Chinese products could negatively impact U.S. firms that import and/or sell such products and may raise prices of some commodities as firms attempt to rectify various safety problems.

The current crisis in China over melamine-tainted milk (which can cause kidney stones) and the growing number of children who have reportedly become ill (tens of thousands) have seriously challenged the government's assertions that most products made in China are safe and that an effective regulatory regime has been established. The government announced on September 22, 2008, that China's chief quality supervisor had stepped down from his post over the incident. Other local and provincial officials have reportedly been sacked for trying to cover up incident. At least 22 Chinese baby formula companies have been found to have tainted products. Press reports indicate that other milk products made in China may have been contaminated as well.

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<sup>9</sup> See CRS Report RL34399, *Consumer Product Safety Improvement Act of 2008: H.R. 4040*, by Margaret Mikyung Lee, and CRS Report RS22821, *Consumer Product Safety Commission: Current Issues*, by Bruce Mulock.